
GRAND
UNION
WE HAVE A LOT IN

CONTENTS

FINANCIAL HIGHLIGHTS

THE GRAND UNION COMPANY

	52 Weeks Ended	
	March 28, 1981	March 29, 1980
Sales	$3,626,231,000	$3,137,612,000
Income before income taxes	52,062,000	48,595,000
Net income	34,327,000	30,669,000
Net income as a percent of sales	.95%	.98%
Working capital	118,786,000	138,514,000
Ratio of current assets to current liabilities	1.41 to 1	1.57 to 1
Number of retail outlets at fiscal year end	856	776

CHAIRMAN'S LETTER

The 1980 fiscal year was a period of significant achievement for The Grand Union Company as we recorded the highest sales and earnings in the 109-year history of our business, while at the same time continuing our pattern of rapid growth.

On January 3, 1981, the number of retail outlets operated by the Company increased substantially when J. Weingarten, Inc., a Houston-based supermarket chain with 86 stores, was merged into Grand Union. Weingarten had earlier been acquired by Cavenham Holdings Inc., one of our parent companies.

Founded in 1901, Weingarten operates in Texas, Louisiana and Arkansas. It had established an excellent reputation for reliability and quality goods in the highly-competitive southwest market, a tradition which we intend to continue. Weingarten is now being operated as one of seven operating regions of Grand Union.

Sales for the fiscal year which ended on March 28, 1981, totaled $3,626,231,000, a major increase over the $3,137,612,000 which was recorded during the previous fiscal year ended March 29, 1980. Net income for the fiscal year totaled $34,327,000 as compared with net income of $30,669,000 during the prior year.

The results for the year ended March 28, 1981, include a pre-tax gain of $6,828,000 on the redemption of the preferred stock of Cavenham Holdings Inc. Sales and earnings for the latest fiscal year include the operating results of Weingarten from January 3, 1981, the date of its merger into the Company.

Overall, 1980 was a difficult year for the retail food industry as most supermarket chains struggled to maintain their share of market in the face of intense competition in virtually all trading areas. Likewise, operating costs continued their upward momentum with utility costs, rent, labor and energy leading the way.

Despite the rather gloomy economic picture, Grand Union utilized its depth of operating, merchandising and financial expertise to meet these constraints. We adopted a posture of meeting competition aggressively, matching or exceeding new merchandising strategies of our competitors, while at the same time maintaining our supermarket operations at their highest levels of customer service and productivity.

Our "Red Dot" marketing program, first introduced in our Wyckoff, New Jersey, supermarket in early 1979, took on an added dimension as we moved quickly to bring as many stores as possible into the mainstream of this innovative and highly-appealing concept. The "Red Dot," taken from Grand Union's new corporate identification, stands for price competitiveness, service, customer information, and an appealing store design.

A further refinement of our Wyckoff store was unveiled in October, 1980, in Fort Lee, New Jersey. The new prototype follows the attractive store design pioneered in Wyckoff, but features several additional specialty departments, including a cheese shop, in-store bakery and international foods section. Future new store development will emphasize the expansion of even more "boutique-type" sections that have been designed to satisfy the ever-changing consumer preferences for quality foods.

We are redesigning our Grand Union private label packages in line with our "Red Dot"philosophy. The attractive designs make our high-quality foods even more appealing, while also providing important nutrition information on a unique yellow band circling the label. Our objective is to develop a group of products which provide quality equal or superior to national brand leaders at much lower prices. We currently have more than 2,000 Grand Union items.

To complement our private label line, we are also offering our own brand of generics, being merchandised under the Basics label. These goods offer all the nutrition of national brands, but at the lowest possible price.

Today, we have more than 100 generic items available with additional items being added regularly.

We have continued the development of our Basics Food Warehouses, first introduced last year. These stores, generally converted supermarkets, are high-volume, low-priced, warehouse-type stores carrying some 3,300 different items in the grocery, meat, produce and general merchandise categories. We currently have 22 Basics Food Warehouses open with plans for further development of five more units this year.

New store development proceeded well. We opened 36 new stores, most of them in the 28,000-square-foot class, while performing major renovations on 51 and enlarging six. We closed 32 older, unprofitable units. At the end of the year, we were operating 856 stores in 18 states, Puerto Rico and the U.S. Virgin Islands.

This year, we plan to open 27 new stores, renovate 39 and enlarge another 14. The thrust of our remodeling program will be in the South and Southwest as we improve many of our acquired units and continue our program of maximizing the potential of this important growth area in the Company.

A number of significant changes have occurred within the management ranks. In June, 1981, Joseph J. McCaig was named President and Chief Operating Officer of the Company. Caryle J. Sherwin, Executive Vice President in charge of our Elmwood Park-based Operations and Basics Food Warehouses, was named to the additional post of Assistant to the President. William A. Louttit was named Executive Vice President in charge of our Atlanta-based Operations.

Earlier, Charles J. Marsden joined the Company as Executive Vice President and Chief Financial Officer; Kristine M. Hammatt was elected Vice President in charge of Corporate Planning and Secretary, and James E. Herlihy was promoted to Vice President and Controller.

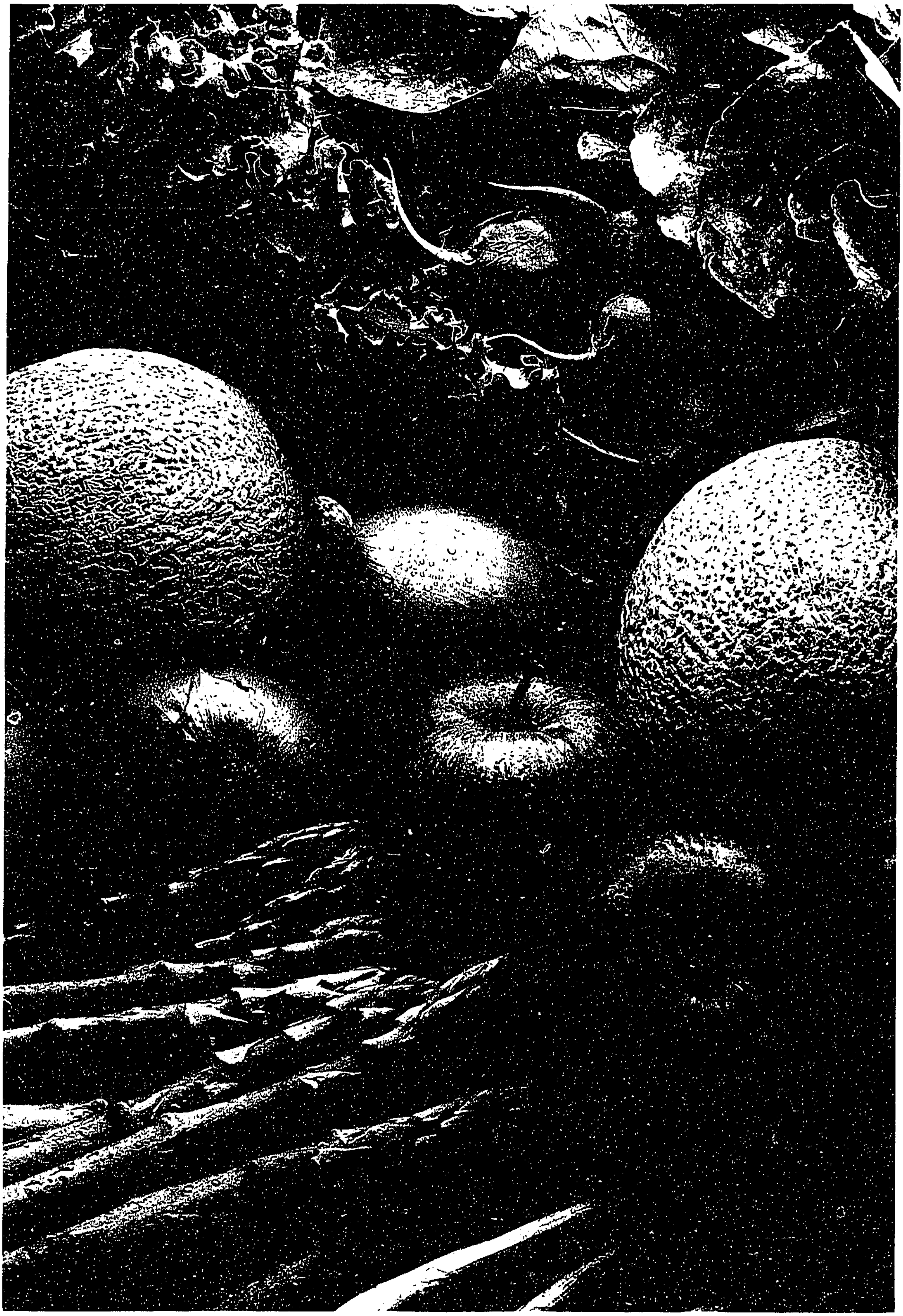
Additionally, Messrs. McCaig, Sherwin, Louttit and Marsden as well as Ernest H. Berthold, Executive Vice President in charge of Merchandising and Distribution; Louis Sherwood, Senior Vice President in charge of Development, and Vincent J. Veninata, Senior Vice President in charge of Administrative Services, were elected to the Company's Board of Directors.

The last few years have produced significant changes within our Company as we have moved into new areas as well as pioneered innovations in the supermarket industry. Our Company today is looked upon as a leader in the mass retailing of fine foods to more than 8 million customers weekly in more than a third of the nation.

New challenges lie in the future as we continue our commitment to excellence. We are deeply appreciative of the efforts of the more than 36,000 Grand Union people who have supported our growth and programs, and have given unstintingly of their efforts to help the Company continue its success.

Patrick A. Deo
Chairman of the Board and
Chief Executive Officer

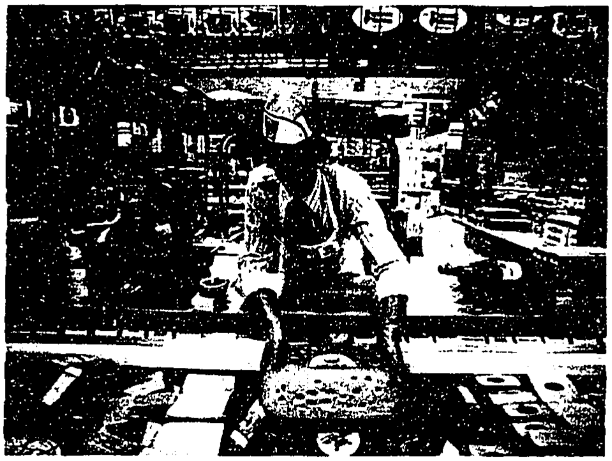
July 23, 1981



Progress was the hallmark of Grand Union last year as the Company continued the integration of its unique "Red Dot" store decor and merchandising concepts throughout the chain.

The "Red Dot" program, which is characterized by an exciting and attractive store environment, effective marketing programs and an increased variety of high-quality goods bearing the distinctive Grand Union identification, is now operational in most of the Company's 18-state trading area.

Further refinements will be made in the program this year. These include the installation of specialty shops within the food store setting, the introduction of new and diverse lines of merchandise and the introduction of a new advertising and sales promotion program.



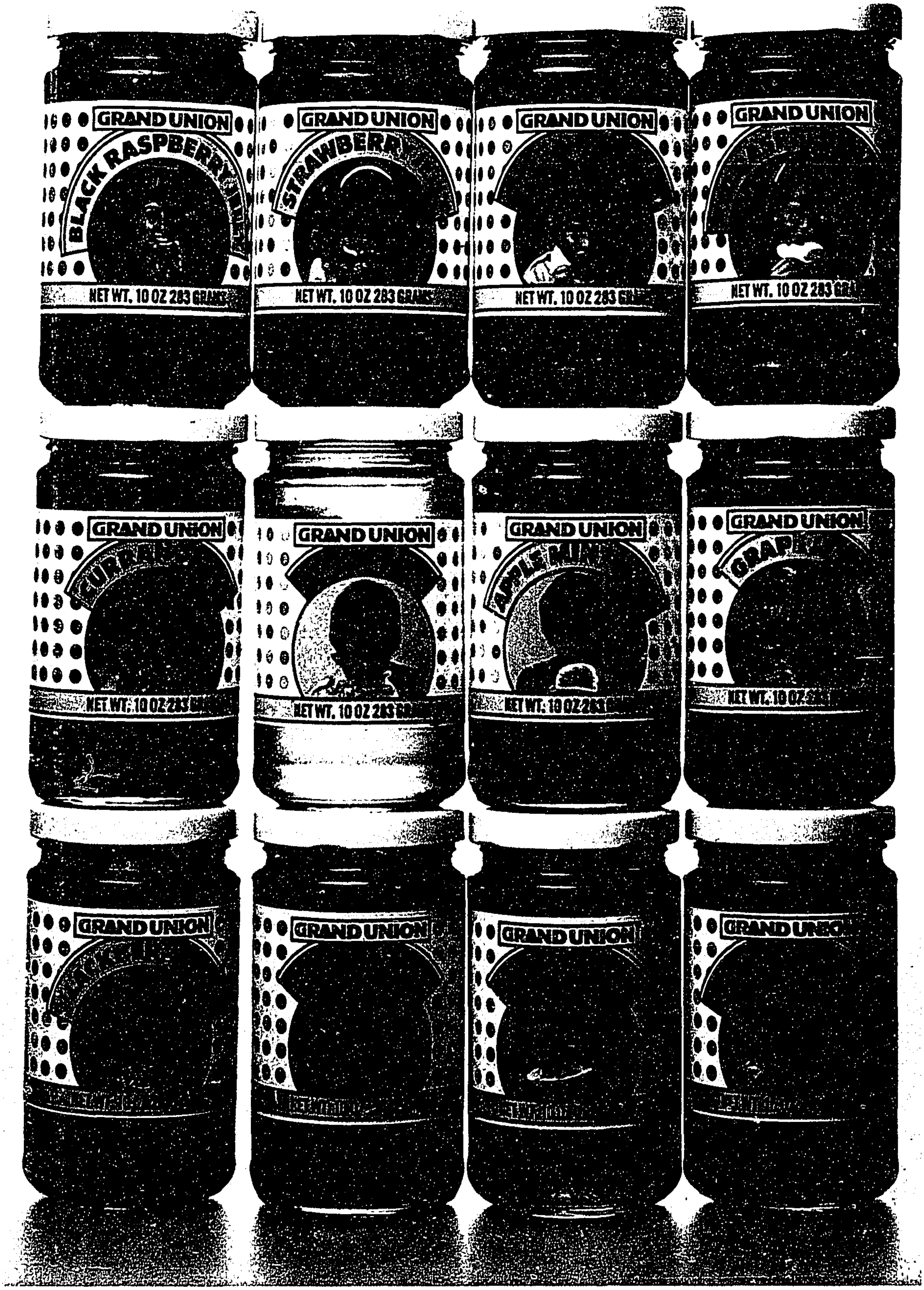
Specialty shops, such as this Cheese Shop in our Fort Lee food market, will be installed in additional units.

The redesign of the packaging for all of our private label items, an integral part of our new marketing strategy, is proceeding on schedule. Under this program, all Grand Union, Big Star and Weingarten private label items will bear distinctive and unique designs and trademarks, aimed at depicting the high quality of our merchandise as well as supplying important nutrition information.

At the same time, the Company will continue to develop its Basics Food Warehouses, the limited-assortment warehouse-type stores which have achieved major consumer acceptance in the six states and Puerto Rico where they now operate.

Ripe, fresh produce in wide variety and abundance is a Grand Union hallmark.

"Ask Me. I'm Here To Help." *is the theme of our business.*


GRAND UNION
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SUPERMARKET DIVISION

Within the Supermarket Division, there were two major thrusts during the year.

First, all efforts were completed to bring Big Star supermarkets, acquired in 1978, and Weingarten supermarkets, acquired earlier this year, into the mainstream of the Company's operating and merchandising philosophy.

This included new merchandising programs, minor renovations in the existing stores, greater utilization of private label merchandise and the introduction of new work methods designed to increase productivity.

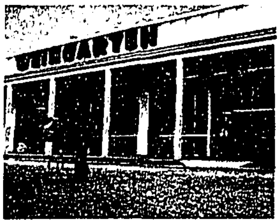
We have continued to expand store hours so that most of our supermarkets now are open around the clock, six days a week, with extended hours on Sundays.

We are experimenting with a Farmers Market produce department in our Atlanta stores, featuring a varied and large assortment of fresh fruits and vegetables in a roadside setting. In Florida, we are engaged in a novel experiment in which residents of Coral Gables are offered some 250 Grand Union products each day on cable television and can telephone orders for the goods to be delivered later directly to their homes.

Our second major thrust was the integration of our financial control systems throughout the Company. All Grand Union, Big Star and Weingarten supermarkets are now operating on the same accounting and computer systems.

Energy conservation is a high priority. The Company has been testing a number of unusual devices to control our consumption of electrical energy, gas and fuel oil.

Private label items are being categorized into the Grand Union, Big Star and Weingarten trade names.



Weingarten food markets are taking on a new, "Red Dot" look.

BASICS FOOD WAREHOUSES

Seven new Basics Food Warehouses have opened, bringing the total number of units now open to 21. One unit especially, a renovated supermarket which was severely damaged in disturbances in the Liberty City section of Miami last year, drew considerable attention when it opened on May 30. It was applauded by civic officials as the first business to re-open in that part of the community since the riots, demonstrating Grand Union's commitment to its customers.

In line with consumer demand, we introduced check cashing service in all Basics Food Warehouses. While certain services and departmental emphasis varies among some of the Basics Food Warehouses, the marketing concept remains uniform, including a uniquely-designed warehouse style layout, decor, selection and variety, and pricing approach that consistently attracts customers.

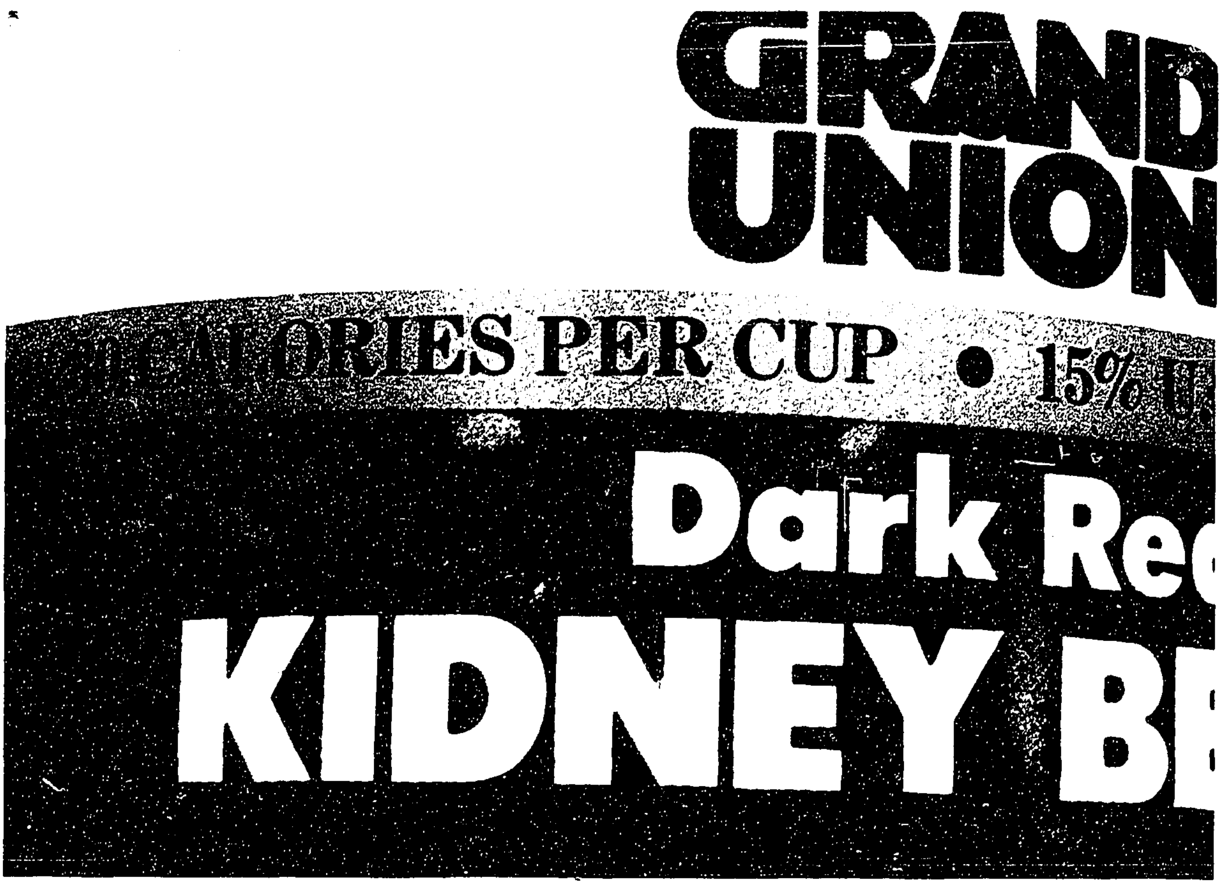
Through the year, we met competition through the utilization of double coupon sales promotion and "triple your money back" guarantees to reinforce our Basics philosophy of the best quality food at the lowest possible prices.

We intend to continue to expand our highly-popular Basics generics product line.

Only the highest quality meat and poultry is sold in all of our food markets.

Bright, colorful and unique designs mark our new private label packages.


GRAND
UNION
Clean, Fresh and Good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UNION
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DISTRIBUTION

Construction is now well underway on Phase II of a two-part major building and renovation program at our East Point, Georgia, Distribution Center, serving Big Star stores throughout Georgia and in sections of Alabama and South Carolina.

When completed in April, 1982, the multimillion dollar project will have transformed the distribution complex into one of the most efficient and modern food distribution terminals in the country.

We are modernizing our 11 Company truck fleets which handle some 85 per cent of our tonnage, adding the new Grand Union, Big Star or Weingarten identification to all vehicles where appropriate.

Escalating fuel costs and higher labor rates were partially offset in our distribution functions by more efficient scheduling of deliveries and the use of backhaul where possible.

QUALITY CONTROL

Quality control and sanitation are extremely important elements in all of the Company's operations. Our own, fully-equipped testing laboratory at Company headquarters in New Jersey samples all products which bear the Grand Union, Big Star or Weingarten name to guarantee their purity and adherence to our high standards.

Independent laboratories throughout our operating area routinely pull samples of products for spot testing and evaluation.

Our sanitation standards are the highest in the industry and are maintained by a carefully-trained team of sanitarians who regularly visit stores and warehouses.

Grand Union's "Red Dot" logo, first introduced in 1979, is being installed on our trucking fleets.

A unique yellow band on Grand Union private label items gives customers important nutrition information.

Employees are taught the importance of cleanliness in food handling, and are given frequent training, utilizing the latest audio-visual techniques, on proper food and store care.

PUBLIC AFFAIRS

The Company maintains vigilance over all levels of government in an attempt to monitor and influence legislation affecting our interests.

We have taken active positions in national affairs to support the President's economic recovery program, as well as his attempts to eliminate excessive and burdensome regulation.

On the state level, we have taken an aggressive stance, both legislatively and in the courts, against unfair laws which hamper our operations and thwart our ability to give our customers the highest possible service and convenience.

All Grand Union meats bear this distinctive quality-guaranteed symbol.

GENERALE OCCIDENTALE

Grand Union is an indirect, wholly-owned subsidiary of Generale Occidentale, a French company with diverse interests in retailing, publishing, finance and natural resources.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
THE GRAND UNION COMPANY

	52 weeks ended		
	March 28, 1981	March 29, 1980	March 31, 1979
	(Amounts in thousands)		
Sales	$3,626,231	$3,137,612	$2,398,944
Cost of sales	2,837,267	2,449,697	1,861,470
Gross profit	788,964	687,915	537,474
Operating, administrative and general expenses (notes 7, 8 and 10)	(730,539)	(626,882)	(494,146)
Interest expense (note 10)	(21,358)	(19,764)	(13,139)
Interest and dividend income (note 10)	8,167	7,326	4,815
Gain on redemption of preferred stock (note 10)	6,828	—	—
Income before income taxes	52,062	48,595	35,004
Income taxes (notes 1 and 5)	(17,735)	(17,926)	(13,000)
Income before minority interest	34,327	30,669	22,004
Minority interest in earnings of subsidiary (note 2)	—	—	(141)
Net income	34,327	30,669	21,863
Retained earnings, beginning of year	110,557	95,590	80,197
	144,884	126,259	102,060
Less cash dividends:			
Common	(19,000)	(15,650)	(6,400)
Preferred	(55)	(52)	(70)
Retained earnings, end of year	$ 125,829	$ 110,557	$ 95,590

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

THE GRAND UNION COMPANY

	March 28, 1981	March 29, 1980
	(Amounts in thousands)	
ASSETS		
Current assets:		
Cash (note 3)	$ 7,861	$ 31,415
Temporary cash investments, at cost (approximates market value)	14,675	34,018
Receivables (including note receivable of $6,930 in both years) less allowance for doubtful accounts of $1,046 and $572 respectively	27,191	21,658
Inventories (note 1)	332,053	266,456
Prepaid taxes, operating supplies and other	14,302	13,046
Properties to be sold in one year (note 1)	11,150	15,489
Total current assets	407,232	382,082
Property, net (notes 1 and 6)	317,499	244,736
Notes receivable, deferred charges and other assets	43,834	21,147
Investments, at cost (note 10)	—	19,282
Investment in and receivable from affiliates (note 2)	—	26,850
Cost in excess of net assets acquired (notes 1 and 2)	12,884	13,030
	$781,449	$707,127
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt (note 3)	$ 843	$ 73
Accounts payable and accrued liabilities (note 4)	287,603	240,268
Federal income taxes (notes 1 and 5)	—	3,227
Total current liabilities	288,446	243,568
Long-term debt (note 3)	114,758	119,179
Long-term capital lease obligations (note 8)	107,896	93,050
Deferred pension obligations (notes 1 and 7)	20,868	20,559
Deferred federal income taxes (note 5)	15,298	11,944
Other non-current liabilities	5,976	5,875
	553,242	494,175
Stockholders' equity (notes 3 and 9):		
4½% cumulative preferred stock, $50 par value; callable at $52 per share; authorized 116,000 shares; outstanding 22,988 and 23,719 shares respectively	1,149	1,186
Common stock, $50,000 par value; authorized 900 shares; issued 626.5 shares	31,327	31,327
Additional paid-in capital	69,902	69,882
Retained earnings	125,829	110,557
Total stockholders' equity	228,207	212,952
	$781,449	$707,127

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

THE GRAND UNION COMPANY

	52 weeks ended March 28, 1981	March 29, 1980	March 31, 1979
	(Amounts in thousands)		
FUNDS PROVIDED:			
Net income	$ 34,327	$ 30,669	$ 21,863
Charges to net income not affecting working capital:			
Depreciation and amortization	37,938	34,536	27,267
Deferred federal income taxes	2,660	919	(597)
Working capital provided from operations	74,925	66,124	48,533
Increase in long-term debt	—	30,146	10,000
Increase in long-term capital lease obligations	7,932	39,996	9,837
Book value of property dispositions	6,524	29,964	6,348
Reduction in investments	21,361	—	—
Reduction in investment in and receivable from affiliates	27,630	—	—
	138,372	166,230	74,718
FUNDS USED:			
Acquisitions (less working capital):			
Property, plant and equipment	38,086	—	77,732
Other non-current assets	12,769	—	29,568
Non-current liabilities	(18,468)	—	(62,483)
Property additions	78,799	91,238	44,797
Reduction in long-term debt	10,000	—	—
Increase (decrease) in notes receivable, deferred charges and other assets	11,177	(1,436)	(926)
Cash dividends	19,055	15,702	6,470
Reduction in long-term capital lease obligations	2,898	13,635	4,719
Increase in investments	2,079	5,366	5,151
Increase in investment in and receivable from affiliates	780	26,850	—
Other, net	925	(3,482)	1,050
	158,100	147,873	106,078
Increase (decrease) in working capital	$ (19,728)	$ 18,357	$ (31,360)
CHANGES IN WORKING CAPITAL:			
Increase (decrease) in current assets:			
Cash	$ (23,554)	$ 5,464	$ 25,796
Temporary cash investments	(19,343)	13,180	(78,817)
Receivables	5,533	10,544	3,859
Inventories	65,597	17,225	77,479
Prepaid taxes, operating supplies and other	1,256	891	2,199
Properties to be sold in one year	(4,339)	(39,687)	53,093
	25,150	7,617	83,609
Increase (decrease) in current liabilities:			
Short-term debt	770	(30,620)	30,693
Accounts payable and accrued liabilities	47,335	26,737	78,272
Federal income taxes	(3,227)	(6,857)	6,004
	44,878	(10,740)	114,969
Increase (decrease) in working capital	$ (19,728)	$ 18,357	$ (31,360)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

Summary of Accounting Policies

The Company is a wholly-owned subsidiary of Cavenham (USA) Inc. ("Cavenham (USA)") which in turn is a wholly-owned subsidiary of Cavenham Holdings Inc. ("Holdings").

The significant accounting policies affecting the Company's financial statements are summarized below.

Fiscal Year. The Company's fiscal year ends on the Saturday nearest the last day of March.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated.

Inventory Valuation. Inventories are valued at the lower of first-in, first-out cost or market value, cost being determined using the retail method for store inventories and average cost for warehouse and other inventories.

Property. Properties held under capital leases are capitalized net of any gains on sale and leaseback transactions and are amortized using the straight-line method over the life of the lease. Depreciation on owned property is computed principally using the straight-line method over the useful lives of the assets. Leasehold improvements are amortized over the shorter of the terms of the leases or their estimated useful lives.

Certain facilities held for sale or sale and leaseback have been classified as properties to be sold in one year.

Pre-Opening Costs. Store pre-opening costs are charged to expense as incurred.

Cost in Excess of Net Assets Acquired. Cost in excess of net assets acquired relating to the acquisition of Colonial is being amortized on a straight-line basis over forty years.

Management does not believe that the remaining amounts, which arose from acquisitions made prior to November 1, 1970, have diminished in value and accordingly is not amortizing such amounts.

Income Taxes. The consolidated operations of the Company are included in consolidated federal income tax returns filed by Holdings. The Company's income tax provision is computed as if it filed a separate federal income tax return (Note 5).

Investment tax credits are accounted for as a reduction of income taxes in the year that the credits arise.

Pension Plans. The Company maintains non-contributory, trusteed pension plans covering eligible employees and a supplemental non-qualified, non-trusteed plan for certain executives. The Company's policy is to fund pension costs accrued. Pension expense for the non-contributory plans consists of normal costs plus amortization of past service costs over periods not to exceed forty years, less amortization of the deferred pension obligations for accrued vested benefits arising from the acquisitions discussed in Note 2 over a fourteen year period.

NOTE 2

Acquisitions

On August 29, 1978 and November 20, 1978 the Company acquired 91% and 9%, respectively, of the outstanding shares of Colonial Stores Incorporated ("Colonial"), a retail food chain, for cash approximating $139,000,000. The acquisition of the Colonial shares has been accounted for as a purchase and, accordingly, approximately $5,836,000 has been recorded, representing the excess of cost over net assets acquired.

In January 1981 the Company acquired the common stock of Cavenham Texas Inc. ("Cavtex"), a wholly-owned subsidiary of Holdings, whose principal asset was its 100% ownership of J. Weingarten, Incorporated ("Weingarten"), a retail food chain. Cavtex was acquired in exchange for the cancellation of an $8,000,000 receivable from Holdings. Immediately following the acquisition, Weingarten was merged into Cavtex, Cavtex was merged into the Com-

pany and the Cavtex cumulative preferred stock held by the Company was canceiled. The net assets of Cavtex were recorded at their historical costs.

The accompanying financial statements include the results of operations of the acquired companies based on the levels of ownership from the respective dates of acquisition. The following unaudited pro forma summary represents the consolidated results of operations of the Company as though the above acquisitions had been made at the beginning of each of the years presented:

	52 weeks ended March 28, 1981	March 29, 1980	March 31, 1979
	(in thousands)		
Sales	$4,110,000	$3,721,000	$3,432,000
Net income	$ 33,600	$ 30,400	$ 25,300

NOTE 3

Debt

Debt consists of the following:

	March 28, 1981	March 29, 1980
	(in thousands)	
8.95% Promissory Note	$ 95,000	$ 95,000
8% Sinking Fund Debentures less unamortized discount of $913,000 and $967,000 resulting in an effective interest rate of 10%	14,087	14,033
Note payable to parent	—	10,000
7¼% Subordinate Cumulative Income Debentures less unamortized discount of $526,000 resulting in an effective interest rate of 13%	4,154	—
Mortgages, interest at 7¾% to 9½%	2,360	219
	115,601	119,252
Less: amounts due within one year	843	73
Long-term debt	$114,758	$119,179

The 8.95% Promissory Note agreement requires annual repayment of principal of $5,000,000 from 1984 to 1985, $6,150,000 from 1986 to 1998 and $5,050,000 in 1999.

The 8% Sinking Fund Debentures due 1996 require annual sinking fund payments of $800,000 beginning in 1982 and $3,800,000 in 1996.

The 7¼% Subordinate Cumulative Income Debentures require payments of $700,000 in 1981, quarterly purchase fund payments of $100,000 from 1982 through 1987 and $1,980,000 in June 1987.

The above agreements contain various restrictions on the Company including provisions with respect to long-term debt and the payment of dividends. At March 28, 1981 approximately $42,500,000 of the Company's retained earnings were free of restrictions.

Maturities of the above debt over the next five years are $843,000, $1,340,000, $1,242,000, $6,245,000 and $6,250,000 respectively.

The Company has unused borrowing arrangements with a number of banks aggregating $38,000,000. The maximum amount of short-term borrowings outstanding under these arrangements at any time during the 52 weeks ended March 28, 1981 was $10,000,000 at an average interest rate of 14½%. To the extent that compensating balances are maintained, a substantial portion of such balances would normally be covered by incompleted transactions with banks.

NOTE 4

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	March 28, 1981	March 29, 1980
	(in thousands)	
Accounts payable	$187,586	$157,158
Accrued liabilities:		
Payroll and other compensation	25,374	26,075
Taxes other than federal income taxes	23,278	19,772
Self-insurance	11,293	16,200
Other	40,072	21,063
Total	$287,603	$240,268

NOTE 5

Income Taxes

The components of income tax expense are as follows:

	52 weeks ended March 28, 1981	March 29, 1980	March 31, 1979
	(in thousands)		
Federal income tax expense:			
Currently payable	$13,854	$13,521	$10,891
Deferred, resulting from:			
Excess of tax over book depreciation	2,576	1,909	1,283
Gains on sale-leaseback	142	(29)	(1,507)
Other	(1,584)	(1,021)	50
State income tax	2,747	3,546	2,283
Total income tax provision	$17,735	$17,926	$13,000

The reconciliation of the provision for income taxes computed at the federal statutory rate to the reported provision for income taxes is as follows:

	52 weeks ended March 28, 1981	March 29, 1980	March 31, 1979
	(in thousands)		
Provision computed at federal statutory tax rate	$23,948	$22,355	$16,627
Increase (decrease) in the provision resulting from:			
Tax sharing benefits	—	(1,031)	(796)
Dividends received deduction	(1,891)	(721)	(392)
Current year's investment tax credit	(5,055)	(3,700)	(2,711)
Income taxed at capital gains rate	(1,231)	(1,269)	(75)
State and local taxes, net of federal tax benefits	1,483	1,915	1,199
Other	481	377	(852)
Total income tax provision	$17,735	$17,926	$13,000

During the fiscal year ended March 28, 1981 the tax sharing agreement with Cavenham (USA) and Holdings was amended whereby the Company would no longer receive tax sharing payments from Holdings. Previously, the Company received payments and reduced its federal income tax provision by 15% of the amount by which the Company's consolidated federal income tax liability exceeded the consolidated tax liability of Holdings.

NOTE 6

Property

Property, at cost, consists of the following:

	March 28, 1981	March 29, 1980
	(in thousands)	
Property owned:		
Land	$ 6,651	$ 5,390
Buildings	10,773	6,990
Fixtures and equipment	307,755	245,213
Leasehold improvements	73,108	54,326
	398,287	311,919
Less: accumulated depreciation and amortization	177,330	150,268
Property owned	220,957	161,651
Property leased:		
Land and buildings	116,552	93,207
Equipment	4,191	4,420
	120,743	97,627
Less: accumulated amortization	24,201	14,542
Property leased	96,542	83,085
Property, net	$317,499	$244,736

NOTE 7

Pension Plans

Pension expense under the Company's pension plans described in Note 1 was $9,729,000, $9,537,000 and $4,768,000 for the 52 weeks ended March 28, 1981, March 29, 1980 and March 31, 1979, respectively.

A comparison of accumulated plan benefits and plan net assets as of the most recent actuarial valuation dates for the pension plans is as follows:

Plans with assets in excess of vested benefits

	April 1, 1980	April 1, 1979
	(in thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	$41,450	$26,190
Nonvested	6,844	2,053
	$48,294	$28,243
Plan net assets available for benefits	$52,121	$37,319

As a result of the acquisition of Cavtex, the actuarial present values of vested and nonvested accumulated benefits were increased by $10,121,000 and $748,000 respectively and the net assets available for benefits were increased by $13,834,000.

Plans with vested benefits in excess of assets

	April 1, 1980	April 1, 1979
	(in thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	$71,062	$64,070
Nonvested	5,372	5,612
	$76,434	$69,682
Plan net assets available for benefits	$36,341	$26,517
Recorded liability for unfunded vested benefits	20,559	21,750
	$56,900	$48,267

The weighted average assumed rates of return used in determining the actuarial present value of accumulated plan benefits ranged from 6½% to 8% for both years presented.

NOTE 8

Property Leases

The Company operates principally in leased stores, distribution facilities and offices and, in most cases, holds renewal options with varying terms. Many of the leases contain escalation clauses which provide for increased rentals based upon increases in real estate taxes and lessors' operating expenses.

The following is a schedule by years of future minimum payments under capital leases together with the present value of the net minimum lease payments as of March 28, 1981:

	(in thousands)
1982	$ 14,927
1983	22,016
1984	22,750
1985	12,524
1986	12,274
Later years	206,778
Total minimum lease payments	291,269
Less: amount representing estimated executory costs included in total minimum lease payments	12,139
Net minimum lease payments	279,130
Less: amount representing interest	166,842
Present value of net minimum lease payments	112,288
Less: current portion of obligations under capital leases	4,392
Long-term capital lease obligations	$107,896

The minimum lease payments shown above do not include future minimum sublease rental income of $3,849,000 under noncancellable subleases or payments for contingent rentals under certain store leases on the basis of percentages of sales in excess of stipulated amounts.

The following is a schedule by years of future minimum rental payments required, less minimum sublease rental income, under operating leases that have initial lease terms in excess of one year as of March 28, 1981:

	(in thousands)
1982	$ 40,994
1983	38,183
1984	34,944
1985	31,759
1986	29,478
Later years	254,892
Total minimum payments	430,250
Less: sublease rental income	13,494
Net minimum rentals	$416,756

The following schedule shows the composition of total rental expense for all operating leases:

	52 weeks ended March 28, 1981	March 29, 1980	March 31, 1979
	(in thousands)		
Minimum rentals	$39,091	$35,426	$28,369
Contingent rentals	5,452	5,466	3,762
Less: sublease rentals	(4,960)	(2,827)	(3,062)
	$39,583	$38,065	$29,069

NOTE 9

Stockholders' Equity

Changes in additional paid-in capital and treasury stock are as follows:

	Paid-in Capital	Treasury Stock
	(in thousands)	
Balance March 31, 1979	$69,694	$ —
Purchase of 7,693 preferred shares held in treasury	—	196
Retirement of 7,693 preferred shares held in treasury	188	(196)
Balance March 29, 1980	69,882	—
Purchase of 731 shares of preferred stock		20
Retirement of 731 preferred shares held in treasury	20	(20)
Balance March 28, 1981	$69,902	$ —

NOTE 10

Transactions With Affiliates

Transactions with affiliated companies include interest expense on notes payable (Note 3) totaling $1,820,000, $1,952,000 and $1,166,000 for the three years ended March 28, 1981, respectively. Interest and dividend income relating to investments in Cavtex and Holdings preferred stock and a note receivable from Holdings totaled $4,720,000 and $684,000 for the years ended March 28, 1981 and March 29, 1980, respectively. For the 52 weeks ended March 28, 1981 income for management services rendered to Cavtex prior to the merger totaled $1,750,000.

During the year ended March 28, 1981 Holdings acquired from the Company 671,171 common shares of Diamond International Corporation, approximating $21,361,000, for a comparable amount of Holdings preferred stock redeemable at $42 per share. Subsequently the Holdings preferred shares were redeemed, resulting in a gain of $6,828,000.

NOTE 11

Contingencies

The Company has been named as a co-defendant in numerous similar antitrust actions brought by producers and feeders of cattle. Each of the actions allege violations by the defendants of the federal antitrust laws in connection with the purchase and sale of beef and seeks damages and injunctive relief. Certain of these lawsuits were previously dismissed, but have been reinstated on appeal. All of these actions have been consolidated for pre-trial proceedings before the United States District Court in the Northern District of Texas. The Company has filed answers denying the material allegations of the complaints in all the consolidated lawsuits. It is not possible to predict with any degree of certainty the ultimate outcome of any of these lawsuits since, among other things, the conduct of the other defendants as alleged co-conspirators could affect the liability of the Company. The management of the Company believes that the Company has good and meritorious defenses to each of such lawsuits.

A purported class and derivative action has been brought against the Company and its parents seeking the rescission of the merger in which Cavenham (USA) acquired the remaining 19% minority interest in the Company's common stock and the recovery of unspecified damages, costs and attorneys' fees. The Company and its parents believe that its actions have been entirely proper and lawful, and intend to defend the lawsuit vigorously.

In connection with the Company's acqui-

sition of Colonial, the Federal Trade Commission has initiated a proceeding against the Company, Cavenham (USA), Holdings and Colonial. The Commission contends that the acquisition violates the antimerger provisions of the federal antitrust laws and has advised the Company that it may order relief, including, but not limited to, divestiture of Colonial and prohibition of further acquisitions of a retail food business for ten years without the Commission's prior approval. The management of the Company believes it has presented good and meritorious defenses to the Commission's claims. The trial of this action has been concluded and the Company is awaiting the Commission's initial decision.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of The Grand Union Company:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of The Grand Union Company and its subsidiaries at March 28, 1981 and March 29, 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended March 28, 1981, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.
411 HACKENSACK AVENUE
HACKENSACK, N.J. 07601
APRIL 28, 1981

Price Waterhouse & Co.

SUMMARY OF FINANCIAL INFORMATION (UNAUDITED)

	March 28, 1981	March 29, 1980	March 31, 1979	April 1, 1978	April 2, 1977
	52 Weeks Ended				
	(Amounts in thousands)				
FIVE YEAR INFORMATION					
Historical Information					
Sales	$3,626,231	$3,137,612	$2,398,944	$1,649,274	$1,622,633
Gross profit	$ 788,964	$ 687,915	$ 537,474	$ 365,421	$ 356,576
Net income	$ 34,327	$ 30,669	$ 21,863	$ 14,619	$ 17,419
Net income as a percent of sales	0.95%	0.98%	0.91%	0.89%	1.07%
Dividends paid	$ 19,055	$ 15,702	$ 6,470	$ 2,343	$ 5,998
Working capital	$ 118,786	$ 138,514	$ 120,157	$ 151,517	$ 123,078
Total assets	$ 781,449	$ 707,127	$ 641,902	$ 435,557	$ 382,288
Long-term debt	$ 114,758	$ 119,179	$ 88,980	$ 65,000	$ 50,285
Capital lease obligations	$ 107,896	$ 93,050	$ 66,652	$ 36,585	$ 28,518
Total long-term obligations	$ 222,654	$ 212,229	$ 155,632	$ 101,585	$ 78,803
Stockholders' equity	$ 228,207	$ 212,952	$ 198,182	$ 182,881	$ 170,584
Historical Information Adjusted to Average 1980 Dollars					
Constant Dollar Information					
Sales	$3,626,231	$3,536,792	$3,037,943	$2,266,410	$2,378,110
Net loss	$ 14,080	$ 18,844	—	—	—
Net assets at year-end	$ 309,411	$ 307,439	—	—	—
Purchasing power gain on net monetary items	$ 39,931	$ 54,225	—	—	—
Average consumer price index	253.4	224.8	200.1	184.4	172.9
Current Cost Information					
Net loss	$ 9,466	$ 16,666	—	—	—
Net assets at year-end	$ 283,313	$ 287,893	—	—	—
Excess of increase in general price level over increase in specific prices	$ 11,905	$ 34,383	—	—	—

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Overview

During the past three years, the Company's sales have increased 120% and net income 135%. The primary reasons behind the growth are the acquisitions of Colonial in August 1978 and Weingarten in January 1981. The Company has also actively pursued programs for the elimination of marginal stores, expansion in potentially lucrative market areas and consolidation and containment of its operating overheads. Furthermore, significant capital expenditures have been made during this period for the refurbishing of existing stores and the upgrading of systems and equipment. Following is a more comprehensive review of the Company's operations for the last three years and an overview of the Company's liquidity and capital resources.

Operations

(all amounts in millions)

Sales of $3,626.2 for the 52 weeks ended March 28, 1981 reflect the following increases over the last three years:

Year ended	Annual Sales	*Increase over preceding year* Amount	Percent
March 28, 1981	$3,626.2	$488.6	15.6%
March 29, 1980	$3,137.6	$738.7	30.8%
March 31, 1979	$2,398.9	$749.6	45.4%

Sales increases for the year ended March 31, 1979 were primarily attributable to the acquisition of Colonial in August 1978. The increase for the year ended March 29, 1980 reflects the inclusion of Colonial's sales for a full year together with the effect of opening new and larger supermarkets, the renovation and expansion of stores, offset by the closure of small, obsolete stores, many of which were part of the Colonial acquisition.

The acquisition of the Weingarten supermarkets accounted for 4.4% of the current year's percentage increase in sales while inflation accounted for approximately 9.5%. The balance of the increase is attributable to volume increases resulting from increased selling area and the opening of higher volume supermarkets.

The trend of gross profit dollars has lagged somewhat the growth in sales during the past three years, resulting in a decline in gross profits as a percent of sales, as follows:

Year ended	Percent
March 28, 1981	21.76%
March 29, 1980	21.92%
March 31, 1979	22.40%

The marginally lower gross profit in the most recent two years is attributable to increases in product costs and warehousing and distribution costs which have not been fully recovered by increases in retail prices.

The increase in operating, administrative and general expenses in each of the three years reflects the cost of operating the increased size of the Company's business during this period. The increase in expense this year over the preceding year is attributable to higher wages and higher store operating costs, especially energy related expenses. However, as a percent of sales, these expenses remained relatively constant as follows:

Year ended	Percent
March 28, 1981	20.15%
March 29, 1980	19.98%
March 31, 1979	20.60%

The higher level of interest and dividend income and the gain on the redemption of preferred stock relates to the Company's increased investment activities during the year. Further details on these investments and their disposition is provided in Note 10 to the consolidated financial statements.

The effective income tax rate for the year ended March 28, 1981 at 34.1% is lower than the preceding year due to favorable tax rates on dividend income and higher levels of investment tax credits. The effective tax rates for the two preceding years were relatively comparable.

Liquidity and Capital Resources

During the past three years, expenditures for property additions, dividends, repayment of long-term debt and capital lease obligations, and the acquisitions of Colonial and Weingarten totaled $364.5 million. Funds from operations provided $189.6 million during this period. The balance of funds required was provided from increases in long-term debt and long-term capital leases of $97.9 million, property disposals at book value of $42.8 million plus utilization of available working capital.

The Company maintains a continuing program for the opening of new stores and enlarging and remodeling of smaller and older stores. Capital expenditures related to this program are expected to approximate $65.0 million for the fiscal year ended April 3, 1982. The Company expects that funds necessary for such expenditures will be substantially provided from its operations. The Company also has lines of credit with a number of banks totaling $38 million.

SELECTED QUARTERLY DATA (UNAUDITED):

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
				(in thousands)		
Sales	1980	$ 1,052,336	$803,942	$830,348	$939,605	$3,626,231
	1979	$ 937,385	$704,020	$747,842	$748,365	$3,137,612
Gross profit	1980	$ 228,599	$174,393	$179,749	$206,223	$ 788,964
	1979	$ 207,351	$154,886	$162,658	$163,020	$ 687,915
Net income	1980	$ 8,453	$ 7,472	$ 11,238	$ 7,164	$ 34,327
	1979	$ 9,021	$ 6,696	$ 7,878	$ 7,074	$ 30,669

STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES (UNAUDITED):

		Average 1980 Dollars	
	Historical Costs	Constant Dollars	Current Costs
		(in thousands)	
Sales	$3,626,231	$3,626,231	$3,626,231
Cost of sales	2,837,267	2,869,882	2,867,058
Gross profit	788,964	756,349	759,173
Operating, administrative and general expenses*	(730,539)	(746,331)	(744,541)
Interest expense	(21,358)	(21,358)	(21,358)
Other income	14,995	14,995	14,995
Income before income taxes	52,062	3,655	8,269
Income taxes	(17,735)	(17,735)	(17,735)
Net income (loss)	$ 34,327	$ (14,080)	$ (9,466)
Increase in general price level of inventories and property held during the year			$ 62,687
Effect of increase in specific prices (current costs)**			50,782
Excess of increase in general price level over increase in specific prices			$ 11,905

* *The straight line method of depreciation was used for presentations of the effects of changing prices and is the principal method used in the primary statements. Depreciation and amortization expenses calculated for the primary statements, general inflation and specific prices were $37,598, $52,085 and $50,295 respectively.*

** *At March 28, 1981, current cost of inventory was $335,540 and current cost of property, net of accumulated depreciation, was $380,445.*

EXPLANATORY NOTES

The supplemental information reflects the effects of changing prices on the financial statements in accordance with the provisions of Financial Accounting Standards Board Statement 33 (FASB 33). The disclosures are intended to present the effects of increases in the general price level on the purchasing power of the dollar (constant dollar) and the effects of specific price changes in certain assets used by the Company (current costs) as compared to the primary financial statements (historic costs). Because of the uncertainty as to which method of inflation accounting is most appropriate, the FASB requires that both methods be presented.

Constant dollar accounting is a method of reporting financial statement amounts in dollars each of which is estimated to have the same general purchasing power. Such amounts are measured by using the average Consumer Price Index for All Urban Consumers (CPI-U) for the current fiscal year. Under this method, depreciation expense and cost of sales are increased as a result of the increase in the CPI-U level since the date that the related property and inventories were acquired.

Current cost accounting is a method of measuring and reporting assets and expenses related to the use or sale of such assets at their current costs or lower recoverable amounts as of the balance sheet date. The current cost of inventory closely approximates the amount reported in the primary financial statements due to the relatively short time lag between inventory purchases and the subsequent sale. The current costs of property were determined using specific indices derived from governmental and private organizations.

FASB 33 further provides that income tax expense should not be restated since income taxes are determined and payable on the basis of historical income.

The gain in purchasing power of net monetary liabilities is derived from the concept that monetary assets decreased and monetary liabilities increased in purchasing power value during the period due to inflation. Purchasing power gain has been computed on average net monetary liabilities multiplied by the change in CPI-U for the year.

The excess of the increase in general price levels over the increase in specific prices results from the effects of general inflation, measured by the CPI-U, compared to the specific price increases actually experienced by the Company.

The concepts and procedures established by the FASB for preparation of these disclosures are complex and require the use of assumptions and estimates based on available information. This information therefore should be viewed only as an approximation of inflationary effects.

DIRECTORS

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Bowman Gray III
President,
General Occidental, Inc.

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Charles J. Marsden
Executive Vice President and
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Joseph J. McCaig
President and Chief Operating Officer

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Vincent J. Veninata
Senior Vice President

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GRAND UNION